



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

April 24, 2012

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## **STATUS REPORT ON IMPLEMENTATION OF THE COORDINATION AGREEMENT BETWEEN THE COUNTY AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA REGARDING THE NEW MARTIN LUTHER KING, JR. HOSPITAL**

On July 13, 2010, your Board approved the Coordination Agreement between the County and the Regents of the University of California (UC), which memorialized the County and UC commitments regarding our respective roles in establishing the new private, nonprofit Martin Luther King, Jr. (MLK) Hospital. On August 10, 2010, in conjunction with the UC and consistent with the terms of the Coordination Agreement, your Board approved the appointment of the seven members of the Board of Directors (MLK Board) for the new private, nonprofit MLK Hospital, incorporated as the Martin Luther King, Jr.-Los Angeles (MLK-LA) Healthcare Corporation.

This report summarizes and provides a status of the work this Office and the Department of Health Services (DHS) have engaged in, during the intervening period, with the MLK Board and its Interim Chief Executive Officer to address the commitments in the Coordination Agreement. These include the County's commitment to provide a physical plant through a lease of hospital property and buildings and to supply financial support to establish and support ongoing hospital operations.

### **Property and Building Commitments; Construction Project Status**

On April 19, 2011, your Board approved the CEO's recommendations related to Capital Project No. 88945, which enabled the County to proceed with the design and construction of the MLK Inpatient Tower (IPT) Renovation Project. The scope of the IPT Project is to renovate approximately 194,000 square feet of the existing six-story,

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Tower Building to create a new 120-bed community hospital, to include essential hospital services such as an emergency department, inpatient pharmacy, radiology, operating rooms, central sterilization and related support functions. The project also includes construction of a new ancillary building that will house the main entry and lobby to the hospital, campus cafeteria and hospital administration. In addition, the project includes a complete renovation of the existing central plant.

The project began on June 9, 2011 and the construction work is proceeding as planned, with close consultation with the California Office of Statewide Health Planning and Development (OSHPD), to ensure expedited action on required State jurisdictional approvals. Currently, the project is approximately 38 percent complete and approximately 20 calendar days behind the projected schedule. However, recovery options are being explored with the design builder, Hensel-Phelps. The revised substantial completion date for the Project is currently targeted as April 2013.

### **Service and Operational Issues**

This Office, DHS and County Counsel are drafting the lease agreement which will enable the County to turn over the keys to the new hospital building upon substantial completion. We anticipate having a draft of the lease agreement to share with the MLK Board in May to begin our negotiations with the MLK Board. We anticipate presenting the agreement to your Board for consideration by the end of the calendar year. We anticipate that this agreement will address issues regarding facility maintenance, upkeep and general physical plant operations.

We are also working with DHS and County Counsel to develop a separate agreement which will address the MLK-LA's indigent care obligation, and the financing provisions, which were part of the Coordination Agreement. We anticipate presenting this agreement to your Board at the same time that we present the lease.

As part of their discussions, the County and the MLK Board are addressing areas where it would make sense to share services, both clinical and non-clinical. Clinical areas include, as an example, among others: laboratory; central sterile; nuclear medicine; and dietary. Non-clinical areas include, as an example, among others: central plant; waste management; linen; and telecommunications systems.

We are also planning discussions to include the Department of Mental Health and the MLK Board regarding the care of psychiatric patients, once the hospital is operational and seeing patients.

### **County Financial Support**

On March 8, 2011, your Board approved the County's Services Pledge and Funding Agreement (Funding Agreement) with the MLK Board to provide promised start up funding, and delegated authority to the Chief Executive Officer to prepare and execute amendments to the Agreement for the Fiscal Years (FY) through 2014-15, provided that funds are approved by your Board through the County's budget process; approval by County Counsel is obtained prior to any such amendment; and this Office notifies your Board in writing within 30 days before execution of each amendment.

On May 12, 2011, this Office advised your Board of the process by which funds would be transmitted to the MLK Board. After discussions the CEO had with the Chair and members of the MLK Board, we agreed that the MLK Board will submit to this Office a written request for funds, which will include a budget for their use. This Office will review the written request and budget to ensure it is consistent with the provisions of the Coordination Agreement between the County and the UC. The budget will then be forwarded to your Board. The FY's 2010-11 and 2011-12 payments of start-up funds were transmitted to the MLK Board based on this process.

The 2012-13 Recommended Budget, considered by your Board on April 17, 2012, reflects the third payment of \$10 million in start-up funds for the MLK Board. Based on the agreed upon schedule, we will request that the MLK Board submit a budget and a written request for payment following approval of the 2012-13 Recommended Budget. Following our review of the MLK Board's budget, we will provide your Board with a copy of the budget and our advance notice that we are working with County Counsel to amend the Funding Agreement to enable the County to transmit the funds. We anticipate the advance notice will be provided to your Board in late May 2012 to allow for the 30 day review, and our target date for executing the amendment and transmitting the funds is early July 2012.

The other financial commitments will need to be in place and effective in FY 2013-14. They are reflected in our future year planning estimates and will be incorporated into the 2013-14 Recommended Budget, as appropriate. These include:

- \$28.0 million – a one-time reserve fund of \$8.0 million and access to as much as \$20 million in temporary funding to be available as soon as hospital operations commence. The temporary funding must be repaid with interest at the County treasury pool rate. Both the reserve fund and the temporary funding are for use by the hospital only under "exigent circumstances";

- \$50.0 million – ongoing annual intergovernmental transfer (IGT) to the State for Medi-Cal purposes to draw down federal matching revenue;
- \$13.3 million – ongoing annual support for indigent care services; and
- \$100.0 million - letter(s) of credit which must be acquired and retained, for at least six years, available beginning 30 days before the opening of the hospital, to be accessed in the event that the County does not make its ongoing annual IGT. The UC and County agree to review at the fifth year if the letter(s) should be maintained for a longer period.

Specifically, with respect to the IGT, the changes to the financial landscape caused by the State's most recent 1115 Waiver and health care reform have a significant impact on the financing model that was developed initially for the hospital. While we expect that an updated model will still prove financially viable, the details of it are currently under review by DHS, and revisions to the Coordination Agreement's requirements may be necessary.

### **Next Steps**

We are continuing to work with DHS and County Counsel on the structure of the Agreements needed to memorialize the commitments between the County and the MLK Board, the State and, to the extent needed, with the UC.

We will provide additional status reports, as needed, but at least quarterly, with our next report targeted for June 2012.

If you have any question regarding this matter, please contact Sheila Shima at (213) 974-1160 or [sshima@ceo.lacounty.gov](mailto:sshima@ceo.lacounty.gov).

WTF:SAS:MLM  
MM:hd

c: Executive Office, Board of Supervisors  
Auditor-Controller  
County Counsel  
Health Services  
Mental Health